

HFA Issuer Credit Ratings

*Iowa Finance Authority
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Who is interested?

- Federal & State Governments
- Credit/Liquidity Enhancers
- Insurance Providers
- Rating Agencies
- Investors



What are they called?

- 1985: “Top-Tier” Designation
- 13 HFAs Attained Designation Between 1985 and 1993
- 1991: Alaska HFC Received “GO” Rating
- 25 HFAs Have “Issuer Credit Ratings” (one private)



Why are they useful?

- Additional Responsibilities
- Increasing Complexity
- Greater Financing Flexibility



Uses

- Participation In Federal Programs
- Access To Credit/Liquidity Enhancement
- Expanded Financing Options
- Investor Security
- Internal Benchmarking



Investment Grade Rating Scale

What Is The Potential For Full and Timely Payment To Bondholders

AAA	Extremely Strong Capacity To Pay
AA	Very Strong Capacity To Pay
A	Strong Capacity To Pay
BBB	Adequate Capacity To Pay

HFA Rating Dispersion

*HFA
Rating
Dispersion*

Total: 25

As of 9/1/05

AAA

1

AA+

3

AA

6

AA-

8

A+

3

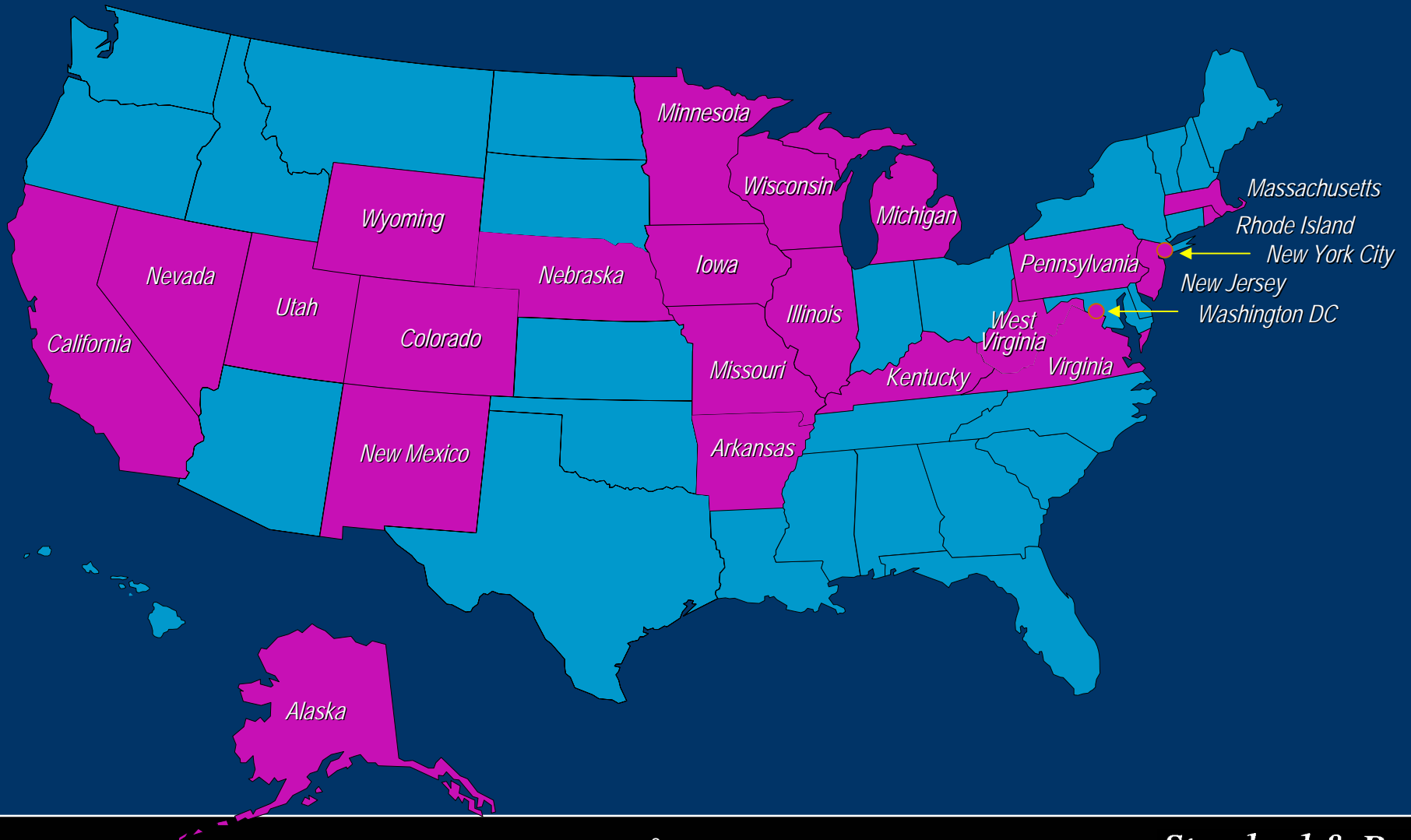
A

3

BBB

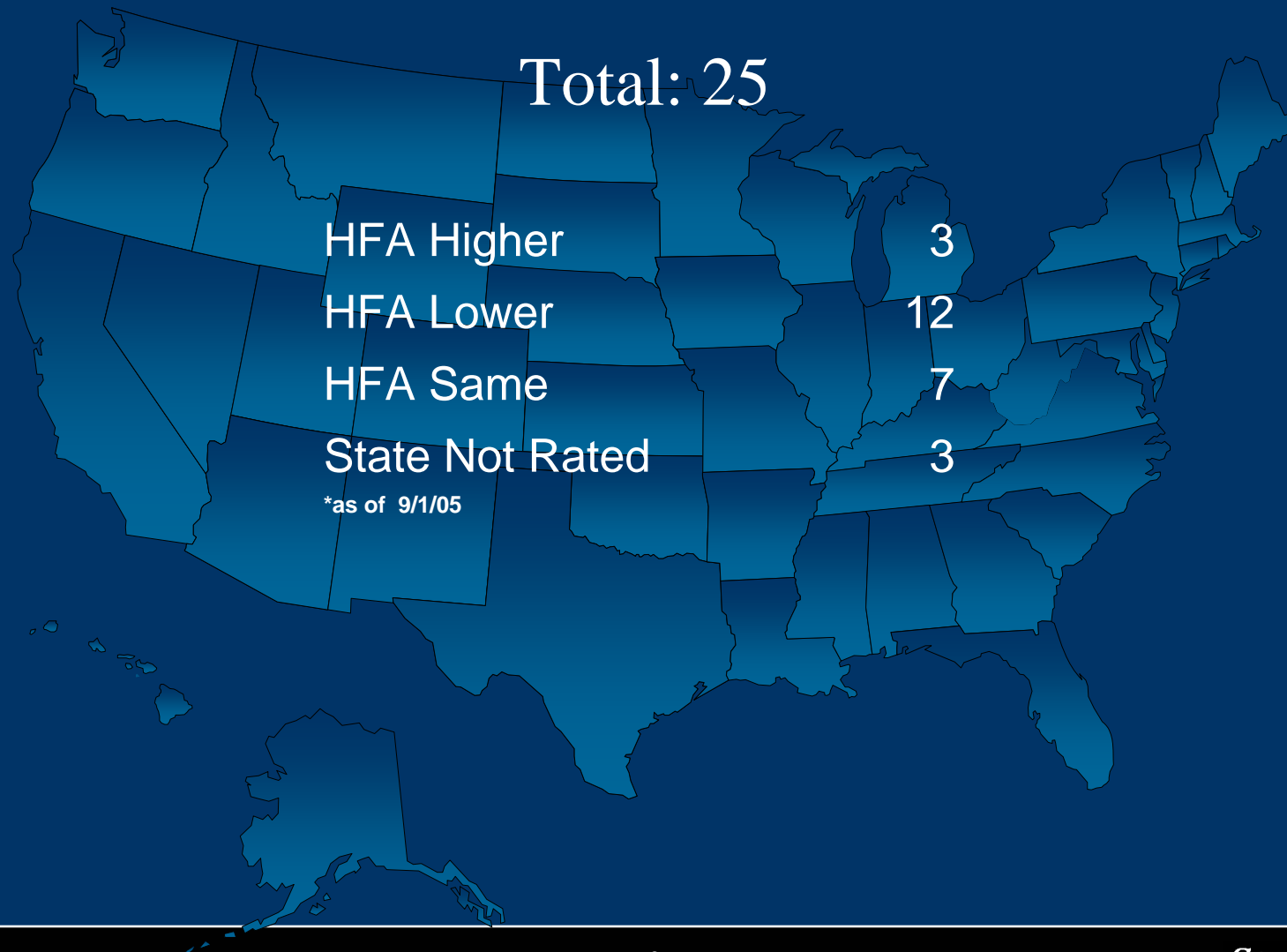
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Where have they been done?





Correlation With State Ratings





ICR Criteria: State Economy



- Employment Base
- Housing Market
- Financial Performance
- Economic Growth



ICR Criteria: Legislative Mandate

- Relationship With State Government
- Knowledge of Agency Programs
- Importance of Affordable Housing as a Policy Goal
- Autonomy of HFA Management



ICR Criteria: Agency Management

- Philosophy
- Strategic Planning
- Organization & Controls
- Financial Management
- Asset Management
- Accounting Quality

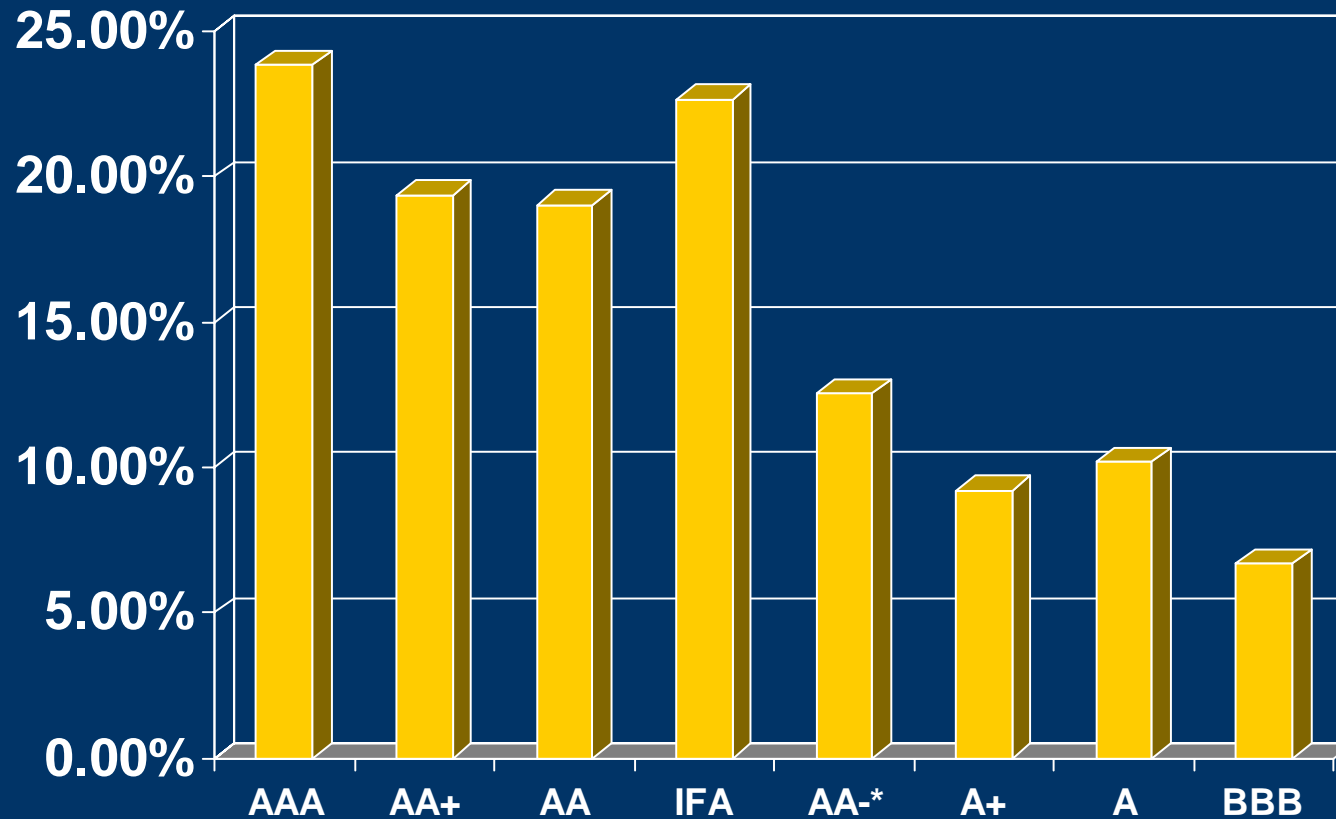


ICR Criteria: Earnings Quality and Financial Strength

- Leverage
- Profitability
- Asset Quality
- Liquidity
- Capital Adequacy



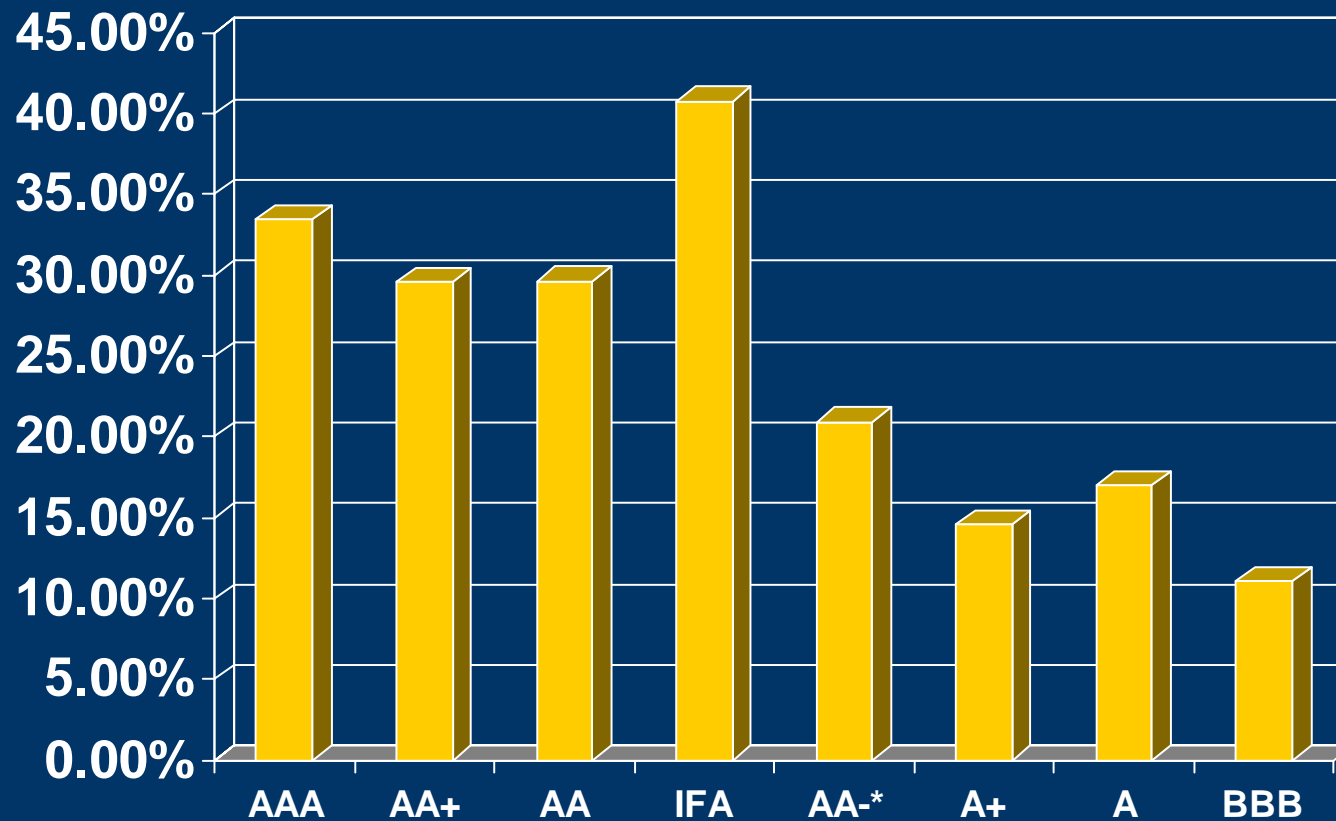
Leverage: Total Equity/Total Assets (Average: 2000-2004)



*Does not include IFA.



Leverage: Equity + Reserves / Loans (Average: 2000-2004)



*Does not include IFA.



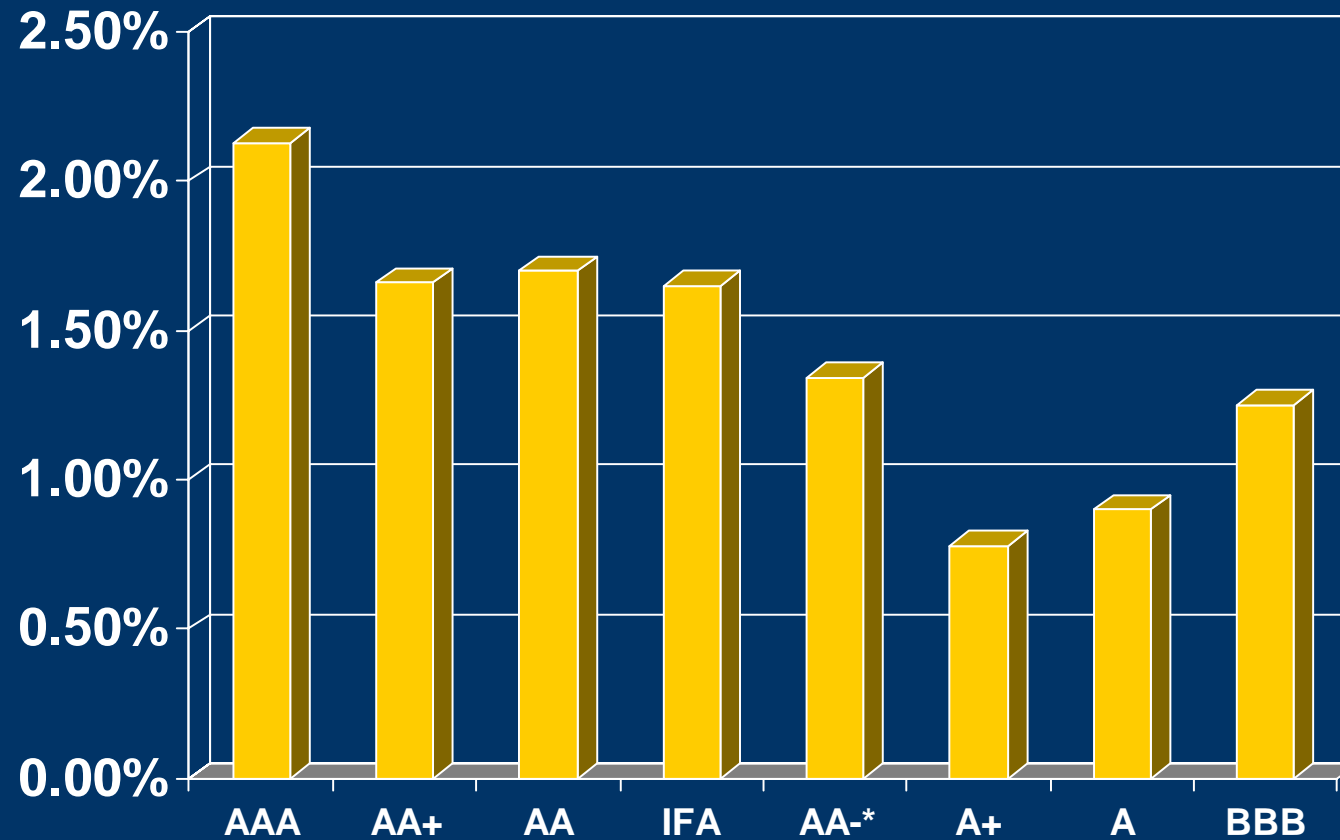
Profitability: Return on Average Assets (Average: 2000-2004)



*Does not include IFA.

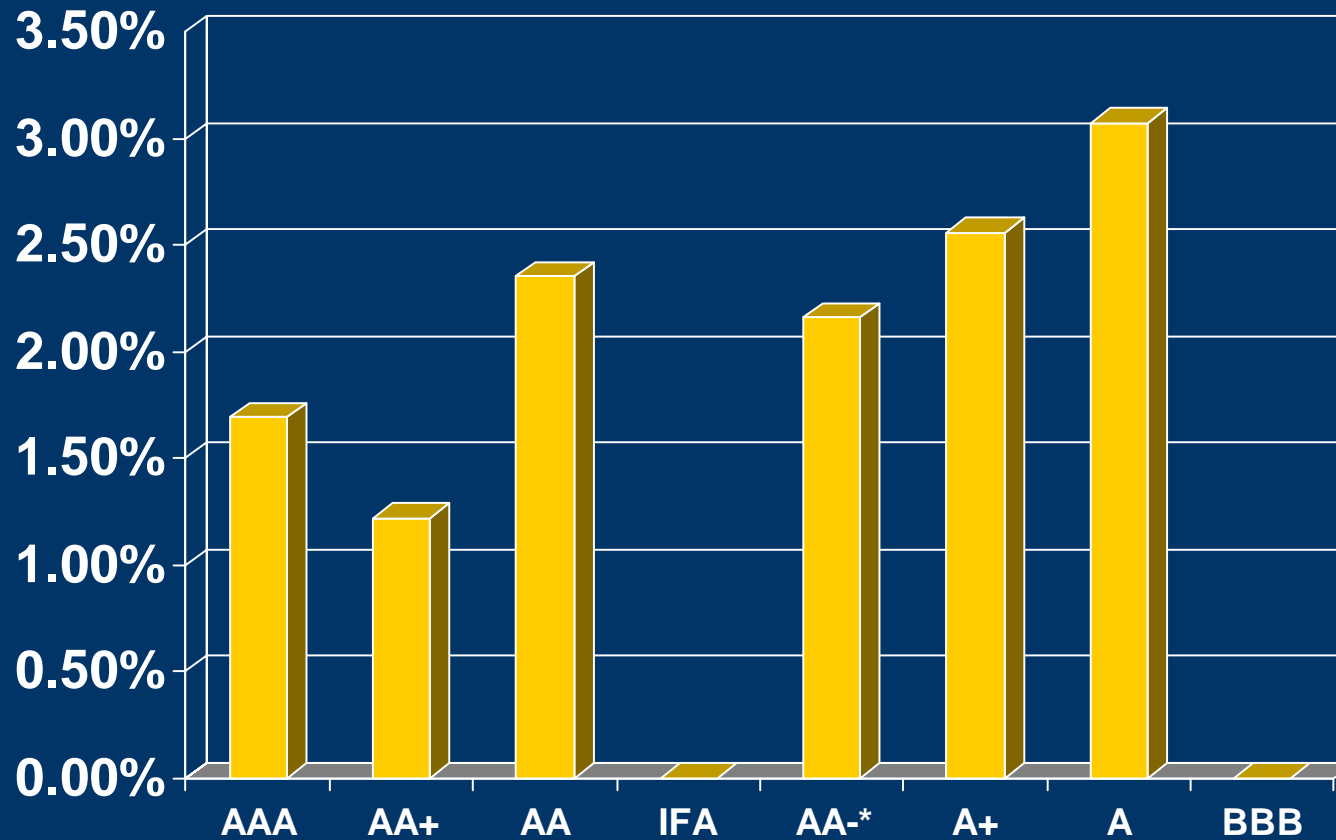


Profitability: Net Interest Margin (Average: 2000-2004)



*Does not include IFA.

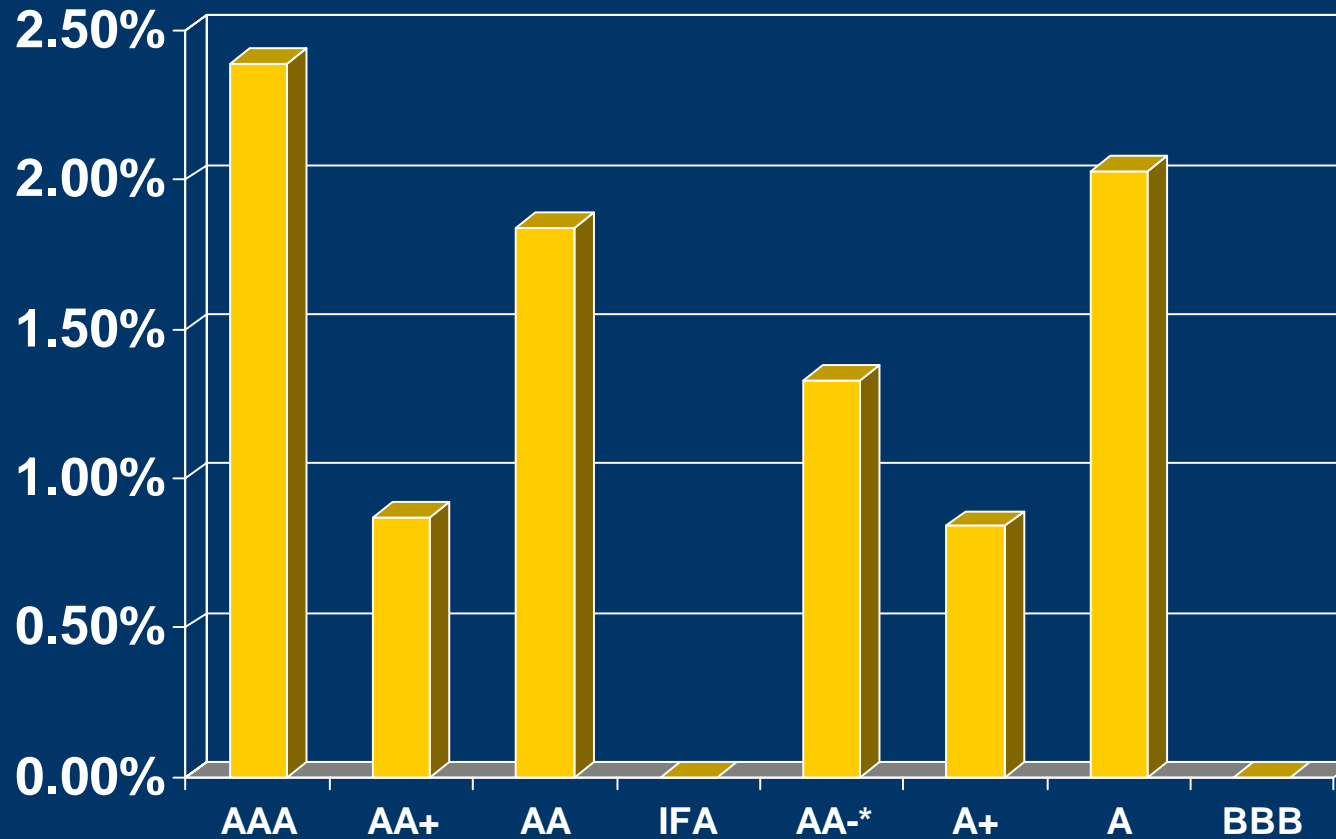
Asset Quality: Non-Performing Assets/Loans + REO (Average: 2000-2004)



*Does not include IFA.

Asset Quality: Loan Loss Reserves / Loans

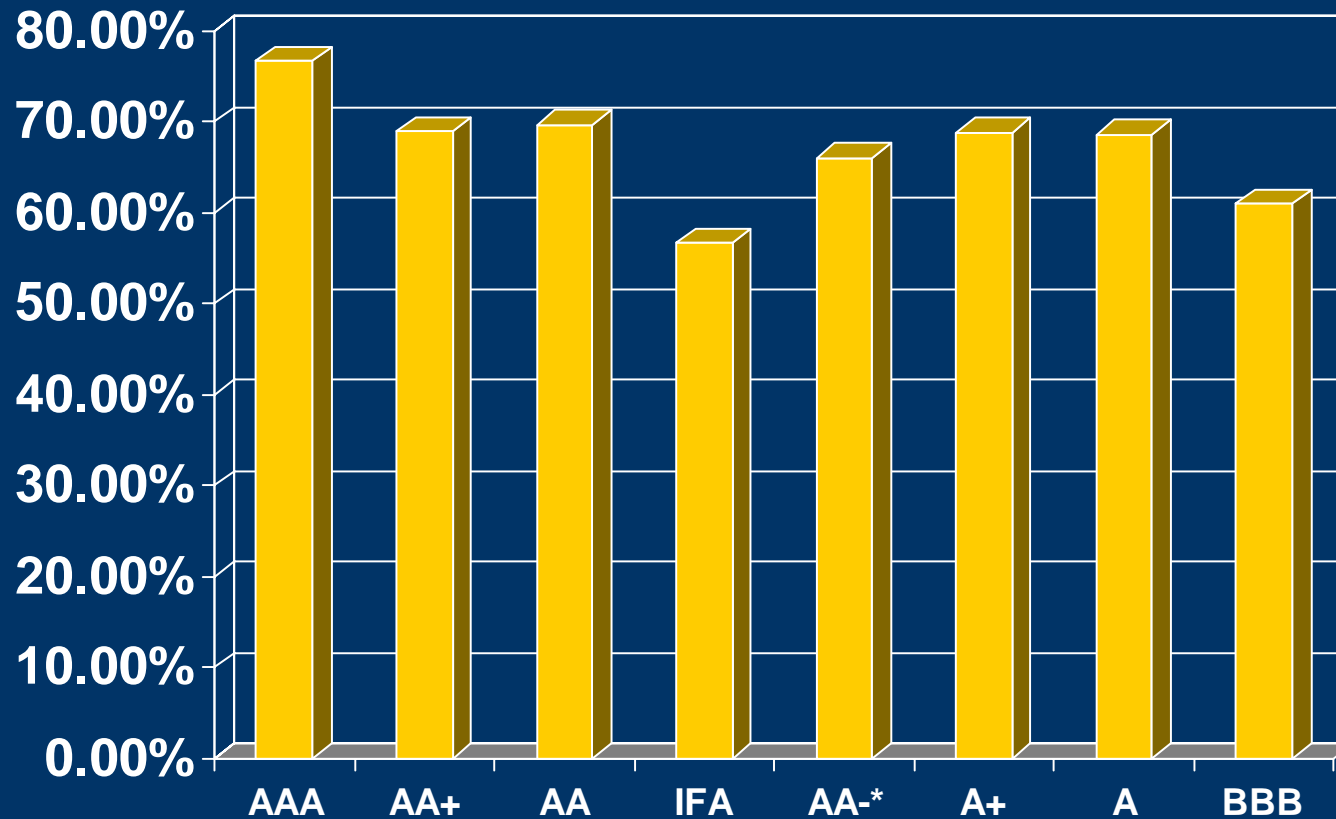
(Average: 2000-2004)



*Does not include IFA.



Liquidity: Total Loans/Total Assets (Average: 2000-2004)



*Does not include IFA.



Swap Risk Analysis

- Debt Derivative Profile (DDP)
- Assesses overall risk of an issuer's use of variable rate hedging instruments.
- Completed for ICR analyses as component of overall risk assessment



Swap Risk Analysis Factors

- Issuer termination / collateral posting risk
- Counterparty termination risk
- Economic viability
- Management

All factors scored from 1 to 5 and equally weighted at 25% in most cases



Swap Risk Analysis Score

Risk scored on a five point system:

- 1, 2 (low risk – issuer's financial profile is manageable and not likely to adversely affect credit quality over the long-term)
- 3 (moderate risk)
- 4, 5 (high risk – issuer's hedging program adds credit risk)

All HFAs, including IFA, received a score of 2